

## Message Text

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ACTION EB-08

INFO OCT-01 EUR-12 NEA-11 ISO-00 AID-05 CIAE-00  
COME-00 FRB-03 INR-10 NSAE-00 ICA-11 TRSE-00  
XMB-02 OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 NSC-05  
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FM AMEMBASSY ISLAMABAD

TO SECSTATE WASHDC 7237

INFO AMEMBASSY PARIS

C O N F I D E N T I A L ISLAMABAD 4918

PARIS FOR USOECD

E.O. 11652: GDS

TAGS: EFIN, PK

SUBJECT: IMF TEAM IN PAKISTAN WANTS REFORM AS CONDITION OF SDR  
60 MILLION STANDBY

1. AN IMF TEAM, LED BY MID-EAST DEPUTY DIRECTOR EL SELEHDAR  
HAS BEEN IN PAKISTAN FOR THE LAST WEEK-AND-A-HALF  
NEGOTIATING A STANDBY AGREEMENT WITH THE GOP. ECONCOUNS  
MET WITH EL SELEHDAR TO LEARN THE GENERAL OUTLINE OF  
CONDITIONS FUND IS DISCUSSING FOR SDR 60 MILLION STANDBY.

2. FUND IS ASKING FOR IMPROVEMENTS IN TAX SYSTEM AND  
ADMINISTRATION TO IMPROVE RESOURCE MOBILIZATION AND MORE  
EFFICIENCY IN PUBLIC EXPENDITURE THROUGH REDUCTION IN  
SUBSIDIES. IT IS ALSO ASKING FOR LIBERALIZATION OF  
IMPORT LICENSING SYSTEM WITH LEVEL OF IMPORTS TO BE  
REGULATED BY CUSTOMS TARIFFS, WHICH EL SELEHDAR  
ACKNOWLEDGED WOULD HAVE TO BE INCREASED ON SOME ITEMS  
AND INTRODUCTION OF AN EQUILIBRIUM EXCHANGE RATE.  
EL SELEHDAR SAID FUND DID NOT ITSELF KNOW WHAT AN  
EQUILIBRIUM EXCHANGE RATE WOULD BE, BUT PAKISTAN'S  
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SEVERE BOP PROBLEM INDICATES EXCHANGE RATE MUST BE  
OUT OF LINE. WE NOTED THAT PARELLEL RATE IS ONLY  
SLIGHTLY ABOVE OFFICIAL RATE EL SELEHDAR INDICATED  
THIS WAS PROBABLY A TEMPORARY ALTERATION IN THE  
DEMAND/SUPPLY RATIO FOR PAKISTAN CURRENCY RESULTING  
FROM HIGH LEVEL OF WORKERS' REMITTANCES. FUND WOULD  
ALSO LIKE IMPOSE CONDITION OF BANNING ALL SHORT-TERM

BORROWING EXCEPT TO FINANCE IMPORTS OF WHEAT, VEGETABLE OIL, AND FERTILIZER, AND WOULD ALSO SEVERELY LIMIT INTERNATIONAL BORROWING IN 1-5 YEAR RANGE. IT WOULD NOT RESTRICT LONG TERM BORROWING. MONEY SUPPLY WOULD BE HELD WITHIN GROWTH IN GNP, I.E., LESS THAN 6 PERCENT ANNUALLY.

3. IN ADDITION TO SDR 60 MILLION STANDBY, EL SELEHDAR SAID PAKISTAN IS TO RECEIVE SOMEWHERE AROUND SDR 63 MILLION FROM TRUST FUND FOR A GROSS INFLOW FROM THE FUND IN THE NEXT PAKISTAN FISCAL YEAR OF ABOUT CDR 123 MILLION. AT THE SAME TIME, IT MUST REPAY OIL FACILITY AND ORDINARY DRAWINGS FROM FUND EXCEEDING SDR 70 MILLION FOR A NET INFLOW OF AROUND SDR 50 MILLION.

4. FUND SEES CURRENT ACCOUNT DEFICIT OF SLIGHTLY LESS THAN \$1 BILLION IN PFY 1979. ADDITION OF \$330 MILLION IN LONG TERM DEBT REPAYMENT MEANS FINANCING GAP OF ABOUT \$1.3 BILLION. THIS IS A LITTLE LESS THAN THE BANK AND THE BOP ARE FORECASTING, BUT STILL LEAVES AN UNFINANCED GAP OF MAYBE \$200 MILLION AFTER TAKING EXPECTED AID AND OTHER CAPITAL INFLOWS INTO ACCOUNT. EL SELEHDAR SEEMED TO ASSUME THIS WOULD BE COVERED BY DEBT RESCHEDULING AND APPEARED TO BE UNAWARE OF US RELUCTANCE ON THIS SCORE. WE EXPLAINED US BELIEF, WHICH WE TOLD HIM WE HAVE NOT YET DISCUSSED WITH THE GOP, THAT

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PAKISTAN IS NOT IN AN IMMINENT DEFAULT SITUATION AND THAT IT WOULD BE BETTER TO POSTPONE DISCUSSIONS OF ITS LONG-TERM CAPITAL NEEDS UNTIL THESE COULD BE ASSESSED IN LIGHT OF PFY 1979 BUDGET AND THE NEW FIVE YEAR PLAN.

5. WE ASKED EL SELEHDAR IF GOP OFFICIALS WERE RESISTING DIFFICULT MEASURES PROPOSED BY FUND IN LIGHT OF CURRENT POLITICAL UNCERTAINTIES, INCLUDING RECENT EVENTS IN AFGHANISTAN AND POSSIBILITY THAT BHUTTO WILL BE EXECUTED. HE REPLIED THAT GOP OFFICIALS HAD EXPRESSED SUCH CONCERNS BUT SINCE REFORMS ARE TO BE SPREAD OVER A FIVE YEAR PERIOD, HE DID NOT THINK THESE CONCERNS CONSTITUTED A SERIOUS OBSTACLE TO BEGINNING WITH NECESSARY REFORMS. HUMMEL

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## Message Attributes

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**Current Classification:** UNCLASSIFIED  
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**Disposition Date:** 20 Mar 2014  
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